

**THE ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM
MEETING OF THE BOARD OF DIRECTORS
November 30, 2011**

MINUTES

Present:

Treasurer Young Boozer, Chair
Dr. Marquita Davis
Dr. Greg Fitch
Ms. Karen Gandy
Mr. Marc Green
General Paul Hankins, Vice Chair
Leigh Grogan for Chancellor Freida Hill
Ms. Patti Lambert
Dr. William Meehan
Mr. Jimmy Stubbs
Mr. Mark Sullivan

Absent:

Ms. Gwen Appling
Sen. Roger Bedford
Rep. Craig Ford
Dr. Richard Huckaby

Others present include:

Ms. Glenda Allred, Deputy Treasurer
Ms. Daria Story, Assistant Treasurer
Ms. Brenda Emfinger, College Savings Programs Director
Mr. Chad Bryan, Capell & Howard
Mr. Barry Bryant, Dahab Associates
Mr. Dan Sherman, Buck Consultants

Agenda Item 1. and 2.

Pursuant to written and public notice, the quarterly meeting of the Board of Directors of the PACT Program was held in the Board Room of the RSA Headquarters on November 30, 2011. The meeting was called to order by Chairman Young Boozer at 1:05 p.m. Roll was taken with a quorum present.

Agenda Item 2.

Chairman Boozer presented the minutes of the August 24, 2011 board meeting. A motion was made by Mr. Stubbs, seconded by Dr. Meehan for approval as presented. The motion was unanimously approved.

Agenda Item 3. (A.)

Chairman Boozer asked Ms. Emfinger for a program report. Ms. Emfinger provided information on program statistics, cancellations, trust fund assets, and the budget. She called the board's attention to information on the distribution of PACT beneficiaries among the various colleges. The report is attached for information.

Chairman Boozer commented on contract cancellations, noting that normal cancellations had been about \$500,000 monthly and during the turbulent times this past year, there had been a total of approximately \$16 million. He further commented that cancellations had recently returned to normal which spoke well for the settlement.

Agenda Item 3. (B.)

Chairman Boozer called on Barry Bryant from Dahab to give the quarterly investment report. Mr. Bryant stated that the investment environment was very polarized with performance based on where the portfolio was placed on the risk scale. He explained that "risk on" meant that stocks would do well and "risk off" meant that bonds would do well. The past quarter for PACT was good in that it was "risk off" with the portfolio invested in fixed income.

Mr. Bryant then discussed economic statistics including GDP growth, CPI increases and the strength of the dollar against the euro. He opined that going forward, the most likely scenario is that Europe would make it through the current problems and avoid a meltdown. However, a more pessimistic scenario is also possible, and until the European situation is resolved he said he would not make recommendations to significantly increase the risk of the portfolio.

Mr. Bryant then discussed performance, stating that the quarterly return for the fund was .6% with a yearly return of 5.6%. He further discussed the positive impact of the move from equities into fixed income earlier this year, and Dahab's method of calculating the returns. He stated that he would review the Investment Policy before the next meeting for any necessary revisions.

Mr. Bryant provided information on the Longfellow and MacKayShield portfolios. The report is attached for reference.

Mr. Bryant stated that given the uncertainty in Europe, he would not recommend changes in asset allocation, but would be recommending changes in benchmarks used for performance measurement. He then suggested that discussions be held with the two managers concerning future cash flow and withdrawals for tuition/fee payments.

Agenda Item 3. (C.)

Chairman Boozer asked Dan Sherman for a discussion of the annual actuarial valuation. Mr. Sherman provided a report which is attached for reference. Mr. Sherman stated that as of 9/30/11, the fund was 102.3% funded with a surplus of \$19.9 million. That funded status assumes that the litigation settlement is upheld by the Alabama Supreme Court. It was explained that the litigation settlement increased the funding status from the 77.5% funded status as of 9/30/10, which had been calculated using the \$547.6 million of future funds from the Education Trust Fund provided by Act 2010-725. Another factor that contributed to the surplus was the better than expected investment return which added approximately \$14 million.

Mr. Sherman then discussed the actuarial assumptions used in the 2011 trust fund valuation, and included in the report.

Mr. Sherman called the board's attention to Appendix C-1, a chart depicting cash flow. He explained that the fund would go negative in 2017 because of the timing of the money coming from the Education Trust Fund. Ms. Lambert asked if this could be addressed with the Legislature and Chairman Boozer stated that he had and would continue to work with them on this issue.

Mr. Sherman then announced to the board that he would be leaving Buck Consultants effective at the end of the week, but stated his desire to continue to work with the board. He explained that Buck did not plan to continue servicing prepaid tuition programs and would be giving him a release from the "non-compete" clause in his contract with them. He stated that we should receive a letter from Buck exercising the contract cancellation clause.

Agenda Item 3. (D.)

Chairman Boozer called on Chad Bryan for the legal report. Mr. Bryan reported that the Green class action lawsuit was the only pending suit against the board. He further explained that two appeals had been filed on the ruling which approved the settlement, and that the two appeals had been consolidated. As of the date of the meeting, the parties had submitted all required briefs on the appeal issues. Mr. Bryan further informed the board that an objecting party had filed, and been granted, a motion to stay the implementation of the settlement on November 18, 2011. He stated that we had asked the Court for clarification of implementation of the stay and were awaiting their response. He suggested that further discussion of the ruling, and other legal matters, be discussed in Executive Session.

Agenda Item 4.

Chairman Boozer provided a copy of a proposed amendment to the contract with Capell & Howard for legal services. He explained that given the continuing litigation, additional funds are required. No other amendments were made to the contract. A motion was made by General Hankins, seconded by Dr. Meehan for approval of the amendment. The motion unanimously carried. The amendment is attached for reference.

Agenda Item 5.

Chairman Boozer called the board's attention to the scheduled meeting dates for 2012.

Agenda Item 6.

Chairman Boozer presented a resolution for consideration by the board. He requested consideration from the board for a committee to work with a Request for Proposal for actuarial services to be issued immediately. He explained that the program could not operate without an Actuary and the process would need to be expedited. A motion was made by Dr. Meehan, seconded by Dr. Davis for approval of the resolution which is attached for reference. The motion was unanimously approved. Chairman Boozer, Ms. Lambert, and Mr. Stokes volunteered to serve on the RFP committee.

Executive Session

A motion was made by General Hankins and seconded by Dr. Meehan to enter into Executive Session. Chairman Boozer discussed the Bylaws and procedures relating to Executive session. He announced that the meeting would resume after executive session which was expected to last approximately 30 minutes. Ms. Emfinger called the roll with all members voting to go into executive session to discuss pending legal matters. Mr. Bryan then stated that executive session as requested met the requirements for the exception to the Open Meetings law. The purpose of the executive session was to discuss the legal ramifications of the stay issued by the Alabama Supreme Court, as well as other legal options for the pending litigation.

Meeting Reconvened

At 2:50 the board meeting resumed. Chairman Boozer read a statement regarding the stay issued by the Supreme Court that had been posted on the PACT website. The statement is attached for reference. A motion was then made by Dr. Meehan to grant authority to Chairman Boozer and Vice Chair General Hankins to work with legal counsel on pending legal issues related to the stay. The motion was seconded by Dr. Fitch with unanimous approval.

There being no further business the meeting was adjourned at 3:00 p.m.

Brenda Emfinger, Recording Secretary

Young Boozer, Chair